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February 10, 2000

To: Supervisor Gloria Molina, Chair
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Alan Sasaki 
Auditor-Controller

Subject: **FISCAL AUDIT ON GREATER HOPE SOCIETY - A GROUP HOME
FOSTER CARE CONTRACTOR**

Attached is our audit report on Greater Hope Society's (GHS) fiscal operations for the period November 1, 1997 through October 31, 1998. GHS is licensed to operate two group homes with a combined resident capacity of 12 children. GHS is located in the Fourth Supervisorial District. The Department of Children and Family Services (DCFS) referred this Agency to us for audit.

DCFS contracts with GHS to provide the basic needs and services for foster care children placed in the Agency's care. Under the provisions of the contract, DCFS pays GHS a monthly rate per child, based on a rate classification level determined by the California Department of Social Services (CDSS). GHS received a monthly rate of \$3,834 per child, and during the period of our review, received approximately \$552,096 in foster care funds from DCFS.

Scope

The purpose of our audit was to ensure that GHS has appropriately accounted for and spent foster care funds on allowable and reasonable expenditures for providing the necessary care and services to children placed in the Agency's care. We also evaluated the adequacy of GHS' accounting records, internal controls, and compliance with the Contract and applicable federal and State fiscal guidelines governing the disbursement of group home foster care funds.

Summary of Findings

We have questioned a total of \$37,320 in expenditures made by GHS. Of this amount, \$24,863 represents disbursements that were undocumented or not adequately supported. Many disbursements were made with checks made payable to the group home's Executive Director or "cash". Additionally, we identified \$3,788 in non-group home expenditures including capital improvements, and \$8,669 in excess salary and shelter costs.

We also found areas where GHS needs to strengthen their internal controls over disbursements, personnel, insurance, and lease agreements, to ensure compliance with contract requirements.

Review of Report

We discussed our report with GHS management on January 26, 2000. GHS management has agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days, outlining the resolution of all the findings and questioned costs contained in our report.

We thank GHS management and staff for their cooperation during our review.

ATS:PTM:MR

Attachment

c: **Chief Administrative Office**

David E. Janssen, Chief Administrative Officer
Public Information Office

Department of Children and Family Services

Anita Bock, Director
Beverly Muench, Senior Deputy Director
Amaryllis Watkins, Acting Deputy Director, Bureau of Resources
Genevra Gilden, Chief, Quality Assurance Division

Greater Hope Society

Eva Ford, Executive Director
Board of Directors
Audit Committee Members
Commission for Children and Families

Greater Hope Society
Fiscal Audit of Group Home Foster Care Contract

Background

The Department of Children and Family Services (DCFS) contracts with Greater Hope Society (GHS) to provide the basic needs and services for foster care children placed in the Agency's care. GHS is licensed to operate two group homes with a combined resident capacity of 12 children, and is located in the Fourth Supervisorial District.

Under the provisions of the contract, the County pays GHS a monthly rate for each child, based on rate classification levels determined by the California Department of Social Services (CDSS). GHS received a monthly rate of \$3,834 per child during the period of our review, November 1, 1997 through October 31, 1998, and received approximately \$552,096 in foster care funds from DCFS.

Applicable Regulations and Guidelines

GHS is required to operate its group homes in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- Group Home Foster Care Contract (Contract), including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular).
- California Department of Social Services Manual of Policies and Procedures (CDSS MPP).
- California Code of Regulations, Title 22 (Title 22).

Questioned Costs

We determined that GHS used group home funds for questioned costs totaling \$37,320. Details of the questioned costs are discussed below.

Undocumented or Inadequately Documented Costs

We identified group home expenditures totaling \$24,863 that were not supported by adequate documentation as required by the Circular and CDSS MPP. Listed below are the details of these expenditures.

- Inadequately documented petty cash disbursements during our review period totaled \$16,087. This amount represents checks made payable to either the Agency's Executive Director or to "cash" to cover routine group home expenditures. We were provided with documentation to support the disbursements, which included food purchases, car-related expenses, office supplies, and clothing. However, the documentation provided for review was not sufficient.

Specifically, many receipts contained dates that did not correspond to when the expenditures were incurred and receipts were not cross-referenced to the corresponding checks made out to the Executive Director for petty cash. Further, many receipts did not provide any detail as to items purchased. Consequently, we were unable to determine whether these purchases were appropriate and benefited the children in the group home.

- Additional petty cash disbursements totaling \$3,301 were incurred for operating expenses and various child-related expenses according to the agency's accounting records. However, there was no documentation (e.g., original receipts or vendor invoices) to support these expenditures.
- \$5,475 in payments to American Express, Home Depot, and Airtouch Cellular, that were unsupported by vendor invoices or receipts. In these cases, the Agency provided account statements that did not adequately document the nature of the disbursement. Consequently, we could not determine whether these payments were appropriate and related to the group home.

Non-Group Home Expenditures

GHS incurred \$3,788 in expenditures that were unrelated to providing the necessary care and services to children placed in the group home. Specifically, we found purchases for capital improvements, restaurant charges, women's clothing, long distance telephone charges, and car repairs for a group home employee's personal automobile.

Salary Costs in Excess of State Guidelines

State regulations establish salary standards for executive staff at group home agencies. According to CDSS MPP 11-402, the annual salary paid to an agency's Executive Director cannot exceed \$65,163 and an Administrator's salary cannot exceed \$56,169. We found that the Executive Director and Administrator's annual salaries exceeded state guidelines by \$2,397 and \$2,391, respectively, for the period of our review.

Excess Shelter Costs

CDSS MPP Section 11-402.828 states that group home shelter costs shall not exceed 12% of the fair market value shown on the last property tax bill or a recent property appraisal. Shelter costs include, but are not limited to, mortgages for owned property,

lease or rental costs, use allowance for capital improvements, taxes, building insurance, and appraisals for owned, leased or rented property.

GHS's shelter costs consist of monthly rent for two group homes, which are owned by the Executive Director. Using the most recent property appraisals for both homes, we determined that annual shelter costs for the Agency's two group homes were 12.6% and 12.7%, respectively, of the homes' fair market value. As a result, GHS paid \$3,881 in excess of the maximum amount allowed per State regulations.

Recommendations

1. **DCFS management resolve the \$37,320 of questioned costs and if appropriate, collect any disallowed amounts.**

GHS management:

2. **Maintain adequate supporting documentation for all group home expenditures.**
3. **Use group home funds only for allowable and reasonable expenditures necessary to carry out the purposes and activities of the group home.**
4. **Ensure group home salaries and shelter costs do not exceed the maximum allowed by State guidelines.**

Contract Compliance and Internal Controls

We noted the following contract compliance issues and internal control weaknesses that require corrective action by GHS.

Petty Cash Purchases

During our review period, GHS issued fourteen checks payable to either the Executive Director or to "cash" in amounts ranging between \$1,271 and \$5,000. GHS management indicated that the checks were cashed by the Executive Director to pay the various costs incurred by the group home such as child allowances and other operating expenses. However, the documentation supporting these expenditures was inadequate and resulted in questioned costs totaling \$19,388, as discussed above.

GHS should establish a petty cash fund to pay for group home incidental and operating expenditures. The petty cash fund should be established at an assigned amount (e.g., \$500), maintained on an imprest basis and physically secured at all times. Disbursements from the fund should be supported by invoices, receipts or other documentation, clearly indicating the item purchased, the employee making the purchase and, if applicable, the children involved in the activity. A check should be drawn from the bank account to make periodic reimbursements to the fund. Receipts

supporting replenishments of the fund should be bound together, filed chronologically and cross-referenced to the reimbursement check.

Other group home operating expenses incurred by the group home such as utility bills, gardening, household supplies, etc., should be paid directly to the vendors with a check drawn from the group home bank account.

Recommendations

GHS management:

- 5. Discontinue making checks payable to “cash” or to the Executive Director for payment of group home incidentals and operating expenses.**
- 6. Establish a petty cash fund for group home incidentals and minor operating expenses.**
- 7. Ensure all other operating expenses incurred by the group home are paid directly to vendors with a check drawn from the group home bank account.**

Disbursement Procedures

GHS' disbursement procedures are not in compliance with the Contract and A-C Handbook as follows:

- Several expenditure transactions selected for our review were not posted to the Agency's general ledger or were not posted to the correct expense account. As a result, GHS' accounting records did not accurately reflect the financial transactions of the Agency.
- Supporting documentation is not always marked “paid” and check numbers are not consistently referenced to supporting documents. To prevent duplicate payments and facilitate an adequate audit trail, invoices and receipts should be marked “paid” and referenced to corresponding check numbers.
- GHS' accountant does not sign and date the bank reconciliations as they are prepared. As a result, we were unable to determine if the bank reconciliations are prepared in a timely manner. Further, Agency management does not review and approve the reconciliations in writing. Since bank reconciliations are a primary control for the detection of errors or irregularities, they should be prepared within 30 days of the bank statement date and should be reviewed and approved in writing by management.

Without proper disbursement controls in place, GHS cannot ensure group home funds are used in an appropriate manner and are spent on actual, reasonable and allowable expenses for the group home.

Recommendations

GHS management:

- 8. Ensure that all transactions are recorded in the Agency's general ledger and are posted to the proper account.**
- 9. Ensure documentation supporting expenditures is marked "paid" or otherwise cancelled and is appropriately cross-referenced to corresponding check numbers.**
- 10. Ensure bank reconciliations are signed and dated by the preparer and are reviewed and approved in writing by management.**

Group Home Loans

The Agency's October 31, 1998 balance sheet reflects a loan payable of \$23,875. GHS management indicated that this liability represents the balance on various group home loans received by the Agency from the Executive Director to fund group home operating expenses.

GHS did not enter into a formal written agreement with the Executive Director to account for the loans and the terms of repayment. In addition, there is no supporting documentation for the group home operating expenses paid by the Executive Director on behalf of the Agency. As a result, we were unable to substantiate this liability. It should be noted that payments to the Executive Director for repayment of this loan did not occur during our review period.

GHS should avoid using group home funds to repay this outstanding loan payable unless the Agency can fully support it as a group home liability. In addition, the Agency needs to enter into a formal written agreement documenting the loan amount(s) and repayment terms of this and all future loans made to the Agency.

Recommendations

GHS management:

- 11. Avoid using group home funds to repay the outstanding loan payable unless GHS can fully substantiate this liability to DCFS.**
- 12. Enter into formal written agreements that document loan amount(s) and repayment terms of this and all future loans made to the Agency.**

Personnel Folders

During our review of GHS' controls over personnel and payroll, we found that there were no personnel folders for the Agency's Executive Director, the Administrator, or the Facility Manager. Personnel folders should be maintained for all Agency employees and should contain information related to salary rates, employee position, credentials, etc., to ensure payroll expenditures are authorized and accurate.

Recommendation

- 13. GHS management maintain personnel folders for all group home employees.**

Insurance

GHS' insurance coverage is not in compliance with the terms outlined in Contract Section 22. The Agency's general liability insurance policy has a maximum aggregate limit of \$2 million instead of a \$3 million maximum aggregate limit required by the contract. In addition, GHS' automobile insurance policy does not have \$1,000,000 coverage per occurrence and does not name the County as additional insured, both required by the contract.

Recommendation

- 14. GHS management take immediate corrective action to ensure compliance with the insurance coverage requirements outlined in Contract Section 22.**

Lease Agreements

During our review, we determined that the Executive Director owns both group home properties and is also acting as the tenant on behalf of GHS as shown on the property lease agreements. As such, there is no control in place to prevent unreasonable monthly rental amounts being paid to the property owner. Although not significant, we found where the Agency paid shelter costs in excess of State guidelines.

To minimize the appearance of impropriety, GHS' Board of Directors should assign an independent party, such as an Agency Board member, to act as the tenant on behalf of GHS, entering into new formal lease agreements with the properties' owner.

Recommendation

- 15. GHS management ensure new group home property lease agreements are established with an independent party such as a GHS Board member, on behalf of the Agency.**